

CDIC protection falls short

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The coverage offered Canadians by the CDIC has been eroded by inflation, to the point where the program has fallen way behind other deposit insurance plans • By David Newman

I hate to be the bearer of bad news, but it's time someone pointed out to the public something that bankers, insurers and others in the investment field have known for some time: the protection offered by the Canada Deposit Insurance Corporation (CDIC) has been seriously eroded over time, due to inflation, to the point where the program has fallen way behind other plans.

It has gotten so bad that many financial planners are now recommending alternate investment schemes that take advantage of the vastly better insurance protection offered by other plans.

I detect a lot of complacency among Canadians who vaguely believe that their bank and other deposits are adequately protected by the CDIC. This sense of security is misplaced, I believe.

Not only are 60 per cent of Canadians clueless about what products the CDIC insures, but a greater number are unaware that the value of coverage has been severely eroded. What's also astounding is that 92 per cent of respondents in CDIC's public-opinion survey early this year said the most important factor when making an investment was protecting their savings.

The CDIC insures eligible deposits at member institutions and reimburses depositors for the amount of insured deposits when that institution fails. But its threshold level of protection, \$60,000, was instituted in 1983. Since that time, inflation has decreased the buying power of that protection by 56 per cent, based on changes in the Consumer Price Index. It has decreased the buying power of CDIC coverage by the same amount.

After the financial debacles of the seventies, CDIC's coverage was increased from \$20,000 to its current \$60,000, but inflation has eaten away about half that value. What this means is the \$60,000 is approximately \$34,000 in today's dollars.

Compare alternatives. If deposits are insured in an Ontario credit union, insurance coverage is \$100,000. In Nova Scotia it's a whopping \$250,000. In some Western Canadian jurisdictions, credit union investments are guaranteed for every penny.

If you have investments with an insurance company, the same \$60,000 is at play; however, if you're receiving income ails, your cash is down the drain.

Recently, we've seen bank and trust mergers swallow otherwise independent issues under one corporate brand. The re-investor increasingly has less choice, often relying on the larger institution's reputation to provide the guarantee.

It should be noted the CDIC does not guarantee investments, nor does any other federal government agency. It provides coverage only if the institution's doors don't open tomorrow.

If the CDIC is to regain its relevance, it needs to bring its insurance coverage into

the 21st century by increasing it to \$100,000. This isn't likely to happen unless savers start making a stink. We need to put pressure on CDIC to increase the value of deposit coverage to a satisfactory level and ensure indexation far inflation. To this end, I recommend writing to the CDIC, or you can access a form letter on the Fiscal Agents website.

David Newman is the Information Officer for Fiscal Agents of Oakville. For more information on deposit-insurance limitations across Canada call 905-844-7700 or visit fiscalagents.com.